



IFC Sustainable Business Advisory

# Stories from the Field – WIZZIT Micro-lending Pilot (South Africa)

## Mobile Banking Access for the Unbanked



### Imagine holding a bank in the palm of your hand

Mobile banking has revolutionized the way people bank. By using cell phones, a range of financial services, including person-to-person transfers, can be easily and safely accessed wherever there is cell phone coverage. Mobile banking greatly diminishes the challenges those living in rural or remote areas face when accessing traditional banking services.

IFC, a member of the World Bank Group, is supporting improved access to financial services across Africa and has partnered with WIZZIT Bank, which is bringing secure and efficient mobile banking to hundreds of thousands of people in South Africa.

Since 2004, WIZZIT has offered South Africans a low-cost, transactional bank account that uses any cell phone on any network for making and receiving payments, together with a MasterCard-branded debit card which can also be used at ATMs and point-of-sale devices. Over 400,000 people in the country have opened accounts with WIZZIT.

### Improving access to credit for small businesses

Building on this success, IFC is helping WIZZIT expand its range of services to allow users to access micro-lending through their phones, for personal use or to grow their small businesses. Improved access to finance is especially important for micro, small and medium enterprises (MSMEs) in South Africa, where only 10 percent have access to loans, according to research by Finmark Trust. Millions of micro-entrepreneurs in South Africa struggle without the funding they need to grow.

Although mobile banking has taken off in South Africa, micro-lending has not. This is down to a number of reasons, including a shortage of technical skills, high costs, low levels of funding, expensive security requirements, low repayment rates and judicial bottlenecks for taking collateral. Research by the Finmark Trust reveals that less than 10 percent of South African MSMEs have access to external finance. The micro-enterprise finance sector in South Africa currently services less than 200,000 clients out of 6 million micro-entrepreneurs – less than 4 percent of the total market.

To help increase access to finance for individuals and small businesses in South Africa, IFC and Swiss Economic Cooperation and Development Division at the State Secretariat for Economic Affairs (SECO) are working with WIZZIT to develop a lending program that will allow borrowers to access funds through their mobile phone. The program's three objectives are:

- To expand the range of products available for those without traditional bank accounts. This should include deposits (transaction accounts and savings accounts), salary-based loans and microenterprise loans. WIZZIT cannot be a full service bank for the low income market unless it can offer loans to self-employed individuals and this is very much in line with WIZZIT's vision.



**International  
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- To support the upper end of the microenterprise market, a market in which no South African organization has yet achieved scale.
- Finally, the Productive Lending initiative is expected to improve the value proposition for the unbanked who require additional financial services beyond savings and payments. For a service provider, this is also an opportunity to broaden their revenue base.

WIZZIT's micro-lending pilot project is underway in two townships in Gauteng Province of South Africa, Alexandra and Hammanskraal, where WIZZIT has disbursed more than 350 loans valued between 2,000 and 10,000 Rand (\$285 to \$1,425) to businesses. The WIZZIT's customers are self-made proprietors who run small businesses ranging from food kiosks to general

supplies and services. Most of them lack formal education but possess the drive and ambition necessary to operate a small business. Their operations largely remain static buying and selling goods/services without a clear understanding of how to calculate profit, project stock requirements, establish growth patterns and plan for expansion or lean times. The ability by most borrowers to pay their loans before or on time may even suggest that with adequate book keeping skills, they probably would not have required additional cash injection but rather knowledge on proper accounting. The interaction with WIZZIT loan officers has helped them understand how to manage their finances and take more control of their businesses' future. In addition, through the proposed WIZZIT College of Entrepreneurship, business owners will be better equipped with the critical skills required to run and build a business. The College will also offer certification programmes for loans officers.

## Beneficiary profiles



### **Jerry Aphane**

*Convenience store*

1<sup>st</sup> loan: ZAR 3,000 (\$450), 4 months | 2<sup>nd</sup> loan: ZAR 3,000 (\$450), 4 months

Jerry Aphane runs a small convenience store, which earns him enough to supplement his government pension and support his family. Although his store was successful, Jerry often had problems maintaining enough cash flow and stock, mainly because some of his clients make purchases on account. Although he wanted to add more goods to his shelves, he didn't have the money to do it. Jerry received two loans of \$450 through the WIZZIT pilot program in 2010-2011 and Jerry used the money to increase his stock, which helped improve his sales. The pilot also helped teach him financial literacy, allowing him to repay his loans on time. Jerry said he is thankful for the support he's received managing and financing his business. He intends to continue borrowing larger amounts to grow and diversify his business.



### **Masombuka Dilomang**

*Tailoring & Catering*

1<sup>st</sup> loan: ZAR 2,000 (\$300), 6 months | 2<sup>nd</sup> loan: ZAR 3,000 (\$450), 6 months

Masombuka Dilomang owns a tailoring business in Hammanskraal. She received two loans through the WIZZIT mobile money microfinance pilot in 2010-2011, one of about \$300 and another for \$450. She used the loans to establish and expand a catering business, which can now take orders from up to 300 people at a time for large functions such as weddings and family gatherings. She sometimes combines her skills, tailoring decorative skirtings for tables and chairs for the events she caters. Thanks to the loans and her hard work, she has hired two part-time assistants. "I'm really grateful for the support I received from WIZZIT and would like to learn more about how I can manage my business better," she said.



### Mokoena Hubert

*Noga-ya-Madiba Auto*

1<sup>st</sup> loan: ZAR 5,000 (\$705), 4 months | 2<sup>nd</sup> loan: ZAR 10,000, 6 months

Mokoena Hubert owns a panel beating workshop in Hammanskraal, which specializes in restoring pickup trucks (known locally as 'bakkies'). Mokoena received two loans, using the money to buy car parts that helped him increase his turnover and revenue. He hopes to take another, larger loan to further expand his business.

"I always made sure that I paid on time, so that I can get bigger loans from WIZZIT bank," he said. "It's great that I can use my phone to make the repayments and I don't have to travel all the way to the bank, which is far from my workshop."



### Khomola Freeda

*Muyi Landan Hair Salon*

1<sup>st</sup> loan: ZAR 3,000 (\$450), 6 months | 2<sup>nd</sup> loan: ZAR 5,000 (\$750), 6 months

Khomola Freeda, 26, owns Muyi Landan, a small hair salon that employs two people. A born entrepreneur, she started her business when she was only 15. She took two loans from WIZZIT, using the first to buy additional stock for her salon, improve its security, and renovate with floor tiles. WIZZIT advised her on how to keep accounting records, and register for tax, allowing her to better manage her costs and to formalize her business. The guidance she received also helped her better understand costs and margins, leading her to adjust what she charges for hair products and increase her on-sales business.



Khomola's timely repayments qualified her for a second loan over \$750, which she used to take a course in manicure and pedicure and buy the equipment needed to add these services to her salon. Six months since taking the second loan, she has increased her revenue by 67 percent, from roughly \$1,425 to \$2,300 per month.

"The loans from WIZZIT Bank helped me to improve and expand my business," she said. "I have had it for 11 years now and was surprised to see result of those two loans in such a short period of time. I am very interested to take my relationship with WIZZIT further, especially as my salon is so far away from any bank branch."



### Kgatla Dorothy

*Seatlholog Day Care Centre*

1<sup>st</sup> loan: ZAR 2,000 (\$280), 4 months

2<sup>nd</sup> loan: ZAR 5,000 (\$750), 6 months

Kgatla Dorothy owns a day care centre. She received two loans from WIZZIT bank, one for \$280 and another for about \$750. The loans, which allowed her to purchase groceries for the centre and pay salaries, came at a crucial time: the municipality had asked her to relocate her centre, which severely strained her savings and might have forced her to close. Dorothy did not have a bank account or knowledge of formal book keeping before becoming a WIZZIT client.





### Mhlongo Phathokwakhe

*Convenience store*

1<sup>st</sup> loan: ZAR 3,000 (\$450), 4 months | 2<sup>nd</sup> loan: ZAR 4,000 (\$600), 6 months

Mhlongo Phathokwakhe owns a convenience store in Alexandra, a thriving and bustling township of Johannesburg. He received two loans through the WIZZIT mobile money microfinance pilot, one for \$450 and the second for \$600. The loans allowed him to increase and diversify his stock and purchase a fryer and extractor fan so he could begin selling chips, a popular snack among his customers. Thanks to the investments he made with the loans, his revenue has jumped by about 10 percent. The WIZZIT loan officer also helped him improve his book keeping skills and general business management.



### Poolo Sipho

*Convenience store*

1<sup>st</sup> loan: ZAR 4,000 (\$600), 4 months | 2<sup>nd</sup> loan: ZAR 8,000 (\$1,200), 6 months

Poolo Sipho owns a convenience store in Alexandra. He received two loans through the WIZZIT mobile money microfinance pilot, one for \$600 and the second for \$1,200, allowing him to buy stock and expand his business by establishing a food stall next to his store, which is on a busy road. Poolo expects a significant increase in revenue from his new food business, having already attracted regular customers.

## Challenges and lessons learned from the microfinance pilot so far

- 1. Direct marketing** and active identification of suitable clients by loan officers helped the pilot get the right clientele. Micro-lending requires meticulous loan officers who have the dedication and patience to introduce and hand-hold both potential and existing borrowers throughout the credit period. Beyond this, loan officers should be ready to act as business advisors to borrowers who require a level guidance on basic business management skills necessary to ensure that additional investments are well utilized and monitored.
- 2. Regular visits** by the loan officers coupled with basic training on financial management led to high repayment rates. Conversely, borrowers who were rarely visited were more likely to default on loan repayment. The culture of repayment is not well engrained amongst the borrowers/target market.
- 3. Entry in the formal economy:** The obligation to repay a loan, the first many of them had from the formal sector, together with the advice and guidance they received from the loan officers, helped many clients to formalize their business in readiness for the opportunity to access bigger loans to grow their businesses in the future.
- 4. Culture change.** With WIZZIT being a new brand bringing the concept of branchless banking to the market has its challenges – primarily around building trust and confidence in a non bricks and mortar model. It does take time to get the customers used to Mobile banking but part of the vision is that the loan customers would introduce their customers to WIZZIT and the WIZZkids in the area would in turn sign up these people. Once this is done, customers of the business would pay for the goods and services through WIZZIT thus funding the account and creating an entire ecosystem. This take time to put in place but by using WIZZIT to repay their loans, the business owner quickly sees the merits convenience and cost saving of mobile banking.

5. **Staff selection and development:** The selection and development of suitably skilled and motivated staff is one of the primary challenges. The loan officer role requires a high level of numeracy, which is unfortunately in short supply in South Africa and therefore becomes expensive and in high demand. Although there is a very good commission and incentive structure in place, the good loan officers often get “poached” before seeing the fruits of their labour and before they have had the opportunity to build their client base. It has also been determined that individuals over 25 are more likely to stick with the job than younger recruits. Those with more experience in life can more easily relate to their clients and are more committed to assist entrepreneurs in their community. They are also perhaps more likely to appreciate the benefits of a job in which they have freedom to plan their own schedules and they reap the fruits of their efforts.

6. **Staff supervision and incentives** – another primary challenge is staff supervision and how to incentivize loan officers to continue marketing for long hours each day in the first few months of their deployment, until they have built a base of clients in an area.

7. **Delinquency Management:** A management information system is very important especially for arrears reporting. The higher the loan uptake, the higher the risk for an organization using specialized portfolio management software. There

is much education to be done in the field in building a “repayment culture” and systems have to be in place to effectively manage this. . . Immediate follow up by loan officers has had the desired effect of improving repayment rates but in the long run can prove unsustainable. Engaging the services of a collections Company is also an effective way of managing this risk though adds to the costs.

8. **Commitment.** The pilot has provided sufficiently positive indications and encouragement that WIZZIT has committed to carry on with and grow the project. It has employed a managing director and other senior executives to get the business to scale. In addition, there has been good progress in establishing the WIZZIT College of Entrepreneurship which will attract potential loan officers and through the certification programme reduce turnover. In addition, the College will satisfy the need in skills development and business skills in business owners.

### What next after the pilot?

The scale-up model proposes the extension of hub offices and kiosks located within densely populated townships. The loan products will range between ZAR 3,000-15,000 and will target micro and small businesses as well as salaried individuals looking to start or expand existing businesses. Loan officers will be used to carry out business development, loan processing and first line portfolio management while WIZZKids will continue to sell and open new WIZZIT accounts for the unbanked.

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## ABOUT IFC

IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector. We help developing countries achieve sustainable growth by financing investment, providing advisory services to businesses and governments, and mobilizing capital in the international financial markets. In fiscal 2011, amid economic uncertainty across the globe, we helped our clients create jobs, strengthen environmental performance, and contribute to their local communities—all while driving our investments to an all-time high of nearly \$19 billion. For more information, visit [www.ifc.org](http://www.ifc.org).

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The Swiss Economic Cooperation and Development Division at the State Secretariat for Economic Affairs (SECO) is responsible for the planning and implementation of economic and trade policy measures with developing countries (economic development cooperation, the States of Eastern Europe and Central Asia (transition aid), and the new member States of the European Union (contribution to the EU enlargement). SECO is also responsible for coordinating Switzerland's relations with the World Bank Group, the regional development banks and the economic organizations of the United Nations.

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